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2  
3 UNITED STATES GRAND JURY  
4 SOUTHERN DISTRICT OF TEXAS  
5 HOUSTON DIVISION  
6 GJ NO. 02-2  
7

8 RE: INVESTIGATION OF ENRON  
9

10  
11 BE IT REMEMBERED that on the 23rd day of  
12 October, 2002, beginning at 9:40 a.m., in the  
13 Federal Building, 515 Rusk, Houston, Texas, the  
14 United States Grand Jury convened, at which time  
15 the following proceedings were had and testimony  
16 adduced as hereinafter set forth.  
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23 TESTIMONY OF SHERRIE GIBSON  
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3 I, TIERNEY R. LEDBETTER , CSR, a Certified  
4 Court Reporter and Notary Public in and for the  
5 County of Harris, State of Texas, previously  
6 appeared before the Foreman of the Grand Jury,  
7 at which time I was sworn in as reporter for the  
8 United States Grand Jury.  
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A P P E A R A N C E S

Special Assistant United States Attorney  
WILLIAM KIMBALL and Special Assistant United  
States Attorney SAMUEL W. BUELL appearing for  
the United States of America.

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I N D E X

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1  
2 TESTIMONY OF SHERRIE GIBSON:

3 FOREMAN OF THE GRAND JURY: Do you  
4 solemnly swear or affirm that you  
5 will answer truthfully such  
6 questions as may be propounded to  
7 you by the Grand Jury or under its  
8 direction, so help you God?

9 THE WITNESS: I do.

10 FOREMAN OF THE GRAND JURY: Thank  
11 you.

12 - - - - -

13 WHEREUPON , the said SHERRIE GIBSON ,  
14 having been duly sworn, testified as  
15 follows:

## 16 EXAMINATION

17 BY SPECIAL AUSA BUELL:

18 Q. Could you state your name and spell it for  
19 the reporter, please?

20 A. My name is Sherrie Gibson, S-h-e-r-r-i-e.

21 Q. Ms. Gibson, before I begin my questions  
22 this morning, I'd like to review with you  
23 your rights and obligations as a Grand Jury  
24 witness. Do you understand that your  
25 testimony here is being given under oath

1           today and a record is being made by a court  
2           reporter?

3       A.    Yes, I do.

4       Q.    And do you know understand that, as any  
5           witness before the Grand Jury, you have an  
6           overriding obligation to tell the truth and  
7           that you could be prosecuted for the crimes  
8           of perjury and obstruction of justice if  
9           you were to lie about anything material to  
10          the Grand Jury's investigation?

11      A.    Yes I do.

12      Q.    Do you understand that you have a right to  
13           be -- consult with an attorney in  
14           connection with your appearance before the  
15           Grand Jury?

16      A.    Yes, I do.

17      Q.    I need you to try to speak up so everyone  
18           in the room can hear you, ma'am.

19      A.    Oh, okay.

20      Q.    Have you consulted with a lawyer in  
21           connection with your Grand Jury appearance?

22      A.    Yes.

23      Q.    And who is your attorney?

24      A.    George Murphy.

25      Q.    Is Mr. Murphy with you in the Courthouse

1           today?

2       A.    Yes, he is.

3       Q.    Do you understand that he can't be with you  
4           in the Grand Jury room, but that if you  
5           wish, you can ask to excuse yourself and  
6           consult with him during your testimony?

7       A.    Yes.

8       Q.    Is there a Mr. Bennett from Mr. Ramsey's  
9           firm also with you in the Courthouse today?

10      A.    Yes.

11      Q.    And do you understand that he represents  
12           Mr. Lay in this case, Mr. Kenneth Lay?

13      A.    Yes.

14      Q.    Okay. Do you also understand that you  
15           would have the right to refuse to answer  
16           any question I put to you on grounds of  
17           your Fifth Amendment privilege if you  
18           believed in good faith that a truthful  
19           answer would tend to incriminate you? Do  
20           you understand you have that right?

21      A.    Now I do, yes.

22      Q.    Okay. All right, Ms. Gibson, how far did  
23           you go in school; what degrees do you have?

24      A.    I graduated from Texas A&M with a BBA in  
25           finance and accounting, May of 1982, and

1           then I obtained my CPA in 1987.

2       Q.   Any graduate study?

3       A.   No.

4       Q.   What did you do between graduation from  
5           college and when you obtained your CPA  
6           license?

7       A.   Out of college I went to work for Pete  
8           Marwick for two years. After that I went  
9           to work for a year with AMI, American  
10          Medical International as a financial  
11          analyst. Then I went to work for another  
12          family here in Houston for 12 years.

13      Q.   What family was that?

14      A.   It was the Jerry Finger family. I was  
15          their personal accountant.

16      Q.   How do you spell the last name?

17      A.   F-i-n-g-e-r.

18      Q.   Were you employed by that family or by some  
19          partnership or corporate entity doing  
20          business --

21      A.   No, I was directly employed by the family.

22      Q.   And what business was Mr. Finger in?

23      A.   He was chairman of Charter Bank Shares at  
24          that time.

25      Q.   Okay. How are you currently employed?



1 A. I'm currently self-employed.

2 Q. What are you doing?

3 A. I'm contracting on special projects for the  
4 Lay family as needed.

5 Q. And was your last employment prior to that  
6 a salaried position with the Lay family?

7 A. Correct.

8 Q. And when did that that employment stop?

9 A. May 31st of 2002.

10 Q. And when did you begin working for the Lay  
11 family?

12 A. I began working for them in November of '97  
13 and what I forgot to mention was that  
14 between my employment with the Finger  
15 family and the Lay family, I worked briefly  
16 for a certified financial planner.

17 Q. Who was that?

18 A. The name of the company was Johnson, Bender  
19 & Company.

20 Q. And what did you do for them?

21 A. Financial reports.

22 Q. How was it that you came to be employed as  
23 a personal accountant for the Finger  
24 family?

25 A. I had heard there was a -- my husband was

1 friends with the person that was CFO of a  
2 company, of Charter Bank Shares, and he  
3 knew that I was looking for, you know,  
4 something else and mentioned it and I  
5 interviewed.

6 Q. And what kinds of -- just briefly, what  
7 kinds of work did you do in your capacity  
8 as a personal accountant for the Finger  
9 family?

10 A. A little bit of everything. It's  
11 everything you do on your own personal  
12 level, just magnified, everything from  
13 paying bills to compiling information for  
14 tax returns, facilitating investments,  
15 managing properties, coordinating meetings  
16 regarding estate planning, preparing  
17 reports, et cetera.

18 Q. And how did you become employed as a --  
19 well, what was your position with the Lay  
20 family from '97 until 2002, May 2002?

21 A. My official capacity, I was controller of  
22 the Lay family interests. I worked  
23 directly for the family.

24 Q. And why do you say "official capacity"?  
25 Was there other capacity as well?

1 A. No, that was just my title.

2 Q. Okay. And were you -- what was the entity  
3 that actually employed you? Was there a  
4 partnership or a trust or a corporation or  
5 anything like that?

6 A. No, it was -- it was an individual. In  
7 fact, for the payroll tax reports, Linda P.  
8 Lay was the official employer, and that's  
9 also who appeared on my W-2.

10 Q. Okay. What were your duties and  
11 responsibilities generally as controller  
12 for the Lay family between '97 and '92  
13 [sic]?

14 A. Very similar to what I had done for the  
15 previous family. Payed bills. I acted  
16 more as a facilitator of information,  
17 prepared monthly financial statements, also  
18 prepared any quarterly reports, just kept  
19 the flow of information going.

20 Q. What about in connection with the taxes,  
21 how did that process work?

22 A. Also I prepared -- there was another firm  
23 that actually prepared the tax return.

24 Q. What firm was that?

25 A. Margolis, Phipps & Wright. Margolis is M-

1           a-r-g-o-l-i-s, Phipps is P-h-i-p-p-s, and  
2           Wright is W-r-i-g-h-t.

3       Q.    So what did you do in connection with the  
4           tax returns?

5       A.    I just -- I prepared like all the  
6           workpapers. I would take the books and I  
7           would do all the reconciliations, and as  
8           tax documents or 1099s or whatever would  
9           come in, I would reconcile and present that  
10          to the accounting firm for them to prepare  
11          the tax return.

12       Q.    Did the Lays file jointly or individually?

13       A.    Jointly.

14       Q.    Okay. In addition to Kenneth and Linda  
15           Lay, were there any family entities that  
16           you did work for, a foundation, a trust, a  
17           partnership, anything like that?

18       A.    Yes. There were two family partnerships.  
19           One was KLL and LPL Investments, Limited,  
20           and that was referred to as the investment  
21           partnership.

22                    There was another family partnership  
23           known as KLL and LPL Family Partnership,  
24           Limited. We refer to that as the family  
25           partnership.

1                   There was also the Linda and Ken Lay  
2           Family Foundation, which is a private  
3           foundation.

4       Q.    Okay.  Before we start getting into more  
5           detail on these various entities and your  
6           work, I just want to ask you what your  
7           salary was when you were hired in '97?

8       A.    It was 55,000, but it was based on 30  
9           hours.

10      Q.    Okay.  And how did that change over time  
11           between '97 and May of 2002?

12      A.    Well, I never really worked a 30-hour week.  
13           Once I started getting into the job, it  
14           just always -- it turned out to be more or  
15           less a full-time job, but I was trying to  
16           keep it at part time.  That was the reason  
17           I had accepted the job.

18      Q.    Okay.  Tell us how that kind of developed  
19           in terms of your hours and salary and how  
20           the job changed?

21      A.    Well, as I, you know, worked more hours,  
22           because I was -- I really wanted to stay at  
23           30, but the job just wouldn't allow it.  I  
24           had really two decisions.  I could, you  
25           know, quit or keep going, and so for family

1 reasons I kept working, and they would pay  
2 me overtime then anything over -- well, it  
3 was 30 hours and then we increased it to 35  
4 hours in '98.

5 Q. And did the salary go up?

6 A. Yes, it went up. I don't remember exactly.

7 Q. What was your salary when you left in May  
8 of 2002?

9 A. It was -- I believe it was 90,000.

10 Q. And by 2001 had the -- by the end of 2001  
11 had the hours increased any further beyond  
12 the 35?

13 A. Oh, yes. It started increasing -- it's a  
14 blur, but it started increasing in 2000,  
15 beginning of 2000, end of '99. There just  
16 seems to be more activity.

17 Q. So what -- I'm sorry, what did it increase  
18 to?

19 A. Well, it wasn't -- I mean it was 35 hours  
20 and it was whatever it took to get the job  
21 done, so it might have been, you know, it  
22 could have been 30 hours one week or it  
23 could have been 50 hours the next week. It  
24 was whatever it took to get the job done.

25 Q. Were you compensated in any other fashion

1 by the Lay family or any of the related  
2 entities or any of the Lays with bonuses,  
3 gifts, stock options, real estate, anything  
4 of that nature?

5 A. Yes, I did get bonuses. I don't remember  
6 for what year because it was usually the  
7 next year for the prior year. I don't  
8 remember exactly. Yes, I did receive  
9 bonuses.

10 Q. Approximately how large were the bonuses?

11 A. Ten thousand. I think one was 15,000 and  
12 one was 20,000.

13 Q. Okay. Any other compensation in --

14 A. He -- a SEP was established for me, which  
15 is a retirement plan. And 15 percent of my  
16 salary was then contributed to this plan.

17 Q. Matched?

18 A. No.

19 Q. Okay. What else?

20 A. I received a gift in January of 2000 of  
21 Enron stock.

22 Q. How much?

23 A. It was 143 shares. It was equivalent to  
24 \$10,000.

25 Q. Do you still have those shares? I sold

1           them a week and a half ago for ten cents.

2       Q.    Each or that was the total?

3       A.    Well, that was per share.

4       Q.    Okay.  You hadn't sold any other shares?

5       A.    No.

6       Q.    Did you purchase any Enron shares yourself  
7           at any time?

8       A.    Yes, I did.

9       Q.    When did you purchase Enron stock?

10      A.    I don't remember exactly.  I had 143  
11           shares, so I purchased 57 shares when the  
12           stock was about \$47.  Then I purchased --

13      Q.    On its way up or on its way down?

14      A.    On its way down.  It was in 2002 --

15      Q.    2001?

16      A.    Oh, I'm sorry.  Yeah, 2001.  July, August,  
17           whenever the stock was at 47.

18      Q.    Okay.

19      A.    And then I purchased another 200 shares, I  
20           think when the stock was \$7 a share and  
21           that was November, approximately.

22      Q.    Okay.  And have all those shares also been  
23           sold?

24      A.    Well, then I also purchased another 200  
25           shares, like 75 cents a share in December



1           if 2001, so I had a total of 600 shares,  
2           and I sold all 600 shares October of this  
3           year.

4       Q.    Okay.  Any other transactions in Enron  
5           stock?

6       A.    No, that's it.  Well, I'm sorry, I do take  
7           that back.  My husband and I have a joint  
8           account and I'm not as active in that.  And  
9           he purchased some shares and I think we're  
10          still holding those.  I think he purchased,  
11          I think, 400 shares when it was 37 in 2001,  
12          and I know we did not sell them in 2001.  
13          So I don't know if we still are holding  
14          them or not.

15       Q.    As -- I'm sorry, go ahead.

16       BY SPECIAL AUSA KIMBALL:

17       Q.    As far as you know, neither you nor your  
18           husband sold any Enron stock during 2001?

19       A.    No.  I just did our tax return and I was  
20           looking at our 1099B's.

21       BY SPECIAL AUSA BUELL:

22       Q.    And did you discuss your transactions in  
23           Enron stock with Mr. Lay at any time?

24       A.    No.

25       Q.    You didn't seek or obtain any advice from

1           him, for example, about whether to purchase  
2           Enron stock or when to purchase Enron  
3           stock?

4       A.    No.

5       Q.    Did you have an understanding that it would  
6           be inappropriate or not advisable for you  
7           to discuss with Mr. Lay transactions in  
8           Enron stock that you or your husband might  
9           engage in?

10      A.    I just thought that was a personal matter  
11           and that was just something I didn't  
12           discuss.

13      Q.    Okay.  You never had any conversations with  
14           Mr. Lay, for example, about, "We shouldn't  
15           discuss anything having to do with Enron  
16           stock," or anything like that?

17      A.    No.  No.

18      Q.    Okay.  Have you ever been an employee of  
19           Enron?

20      A.    No.

21      Q.    I'm sorry, I just want to back up for a  
22           minute to make sure I finished the earlier  
23           topic.  Any other bonuses, compensation,  
24           gifts in kind or cash or any other form  
25           from the Lay family or any of their related

1 entities?

2 A. Ms. Lay was -- paid for some of the camps  
3 that my children went to. One year it was  
4 about \$400. One year approximately \$1350.  
5 At Christmas I got, you know, some gifts,  
6 jewelry, bracelet, a Christmas ornament. I  
7 think that's -- I'm trying to remember.

8 Q. You don't remember any other large items?

9 A. No. The bonuses, the contribution to the  
10 SEP, the gift of the stock in January of  
11 2000, but then everything else -- I guess  
12 it's everything's relative but that's -- I  
13 mean, besides -- I was very appreciative of  
14 the camps.

15 Q. Okay. Have you ever been an Enron  
16 employee?

17 A. No.

18 Q. Did you have any friends who worked at  
19 Enron?

20 A. No.

21 Q. Any relatives who worked at Enron?

22 A. No.

23 Q. Okay. Where did you work physically, and  
24 if it changed over time, please explain  
25 that for us?

1       A.    Well, when I originally started in November  
2            of '97, there was not an office for me yet  
3            in the family office, so I would go up to  
4            the 50th floor in the Enron Building and I  
5            would use the conference room for the first  
6            month.  And then December I moved to the  
7            family office.

8       Q.    Which was where?

9       A.    It's in the River Oaks Bank Building.  It's  
10           2001 Kirby Drive.

11      Q.    And is that where you remained through the  
12            early part of this year?

13      A.    Yes, I remained in the building.  I would  
14            though.  I moved four times.  I moved from  
15            the 12th floor to the 8th floor to the 10th  
16            floor to the 8th floor.

17      Q.    And was part of your job also maintaining  
18            records of the Lays' financial affairs?

19      A.    Yes.

20      Q.    And did you have any particular practice  
21            with respect to record retention?  Did you  
22            keep things for a certain number of years?  
23            Did you keep everything?

24      A.    I kept everything.

25      Q.    Okay.

1 A. Which is one of the reasons I needed more  
2 space was for the filing cabinets.

3 Q. All right. And have any or all of those  
4 documents have been produced to any  
5 government entity or litigant in connection  
6 with any of the legal matters that have  
7 flowed from Enron's collapse?

8 A. To my knowledge, they have.

9 Q. Okay. Have you been involved in that  
10 process or have others handled that?

11 A. It's been a mix. There's been several  
12 document requests and I was involved with  
13 some. I physically copied some and since  
14 then I've showed where everything is  
15 located and I think others have then taken  
16 over that process.

17 Q. Okay. And you were previously interviewed  
18 by personnel of the SEC, FBI and Department  
19 of Justice; correct?

20 A. Correct.

21 Q. Okay. Other than interview and your  
22 appearance before the Grand Jury today,  
23 have you been interviewed or have you  
24 testified in any other setting other than  
25 with your own lawyers?

1 A. No.

2 Q. All right. I want to focus you -- I'm  
3 going to try to break down the period you  
4 worked for the Lays into segments of time  
5 if I could, and I want to focus you --  
6 well, let me ask you this. There came a  
7 time in approximately August of 1999 when  
8 Ken Lay's stepson Beau Herrold was hired to  
9 also work for the Lay family on financial  
10 matters; correct?

11 A. Correct. He started August 15th of '99.  
12 His capacity was as an investment advisor.

13 Q. Okay. Prior to that, had there been any  
14 other employee of the family other than you  
15 who worked on financial matters?

16 A. No. I was it.

17 Q. Okay. I want to focus you first then on  
18 the period before Mr. Herrold was hired, so  
19 '97 till August '99. Can you just tell us  
20 a little bit about what your routine was  
21 either daily, monthly, quarterly or  
22 annually?

23 A. I'm sorry, could you repeat the question?

24 Q. Could you just give us a general  
25 description of what your routine was,

1           whatever way is easiest for you, daily,  
2           monthly, quarterly or annually in terms of  
3           the significant tasks you performed for the  
4           Lays?

5       A.   Monthly, probably the most significant was  
6           the preparation of financial statements  
7           because that involved, you know, obtaining  
8           all the different statements and  
9           reconciling it and then being able to  
10          produce it. They were very detailed  
11          statements.

12       Q.   Who did those statements go to? Who were  
13           they produced for?

14       A.   They went to Mr. and Ms. Lay. A copy went  
15           to Margolis, Phipps & Wright. A copy would  
16           go to Rocky Energy Financial Group. And  
17           various copies, depending on who it was  
18           for, would go -- some would go to the kids.

19       Q.   And would there --

20       A.   I'm sorry. And a copy would also go to  
21           Beau.

22       Q.   Were there -- were those statements  
23           intended to include all the assets and  
24           liabilities and cash flow for the Lay  
25           family?

1 A. Yes.

2 Q. And were there separate statements produced  
3 for the Lays personally, for the investment  
4 partnership, for the family partnership,  
5 and for the foundation?

6 A. Yes.

7 Q. And did you prepare all of those?

8 A. Yes.

9 Q. And was there a monthly statement for every  
10 one of those?

11 A. Yes.

12 Q. Were there any kind of different reports  
13 that were prepared quarterly?

14 A. No.

15 Q. Or was it just monthly?

16 A. They were monthly.

17 Q. Were there annual reports?

18 A. No, there were just monthly.

19 Q. All right. Now you also prepared something  
20 additionally for tax purposes on an annual  
21 basis, or did you just provide the monthly  
22 reports to the accountant who did the  
23 returns?

24 A. No. Then at the end of the year I would  
25 reconcile -- as statements would come in



1 from the stockbrokers or from any third  
2 party, I would reconcile those statements  
3 to the books and then make adjustments for  
4 the books, so that, for instance, since we  
5 were on a cash basis and, you know, might  
6 have received money that first week the  
7 following year, then I had to make an  
8 adjustment to match the 1099, so the books  
9 were more or less on a tax basis.

10 Q. By the way, were there ever any other  
11 employees of the family other than you and  
12 Mr. Herrold through 2001?

13 A. Yes. There was Christopher May. He  
14 handled some of the properties and then an  
15 additional role that he undertook in 2001  
16 was that he sold the -- well, he handled  
17 the investments of the foundation, or  
18 monitored them.

19 Q. And that was Robyn Lay's husband?

20 A. Husband, correct.

21 BY SPECIAL AUSA KIMBALL:

22 Q. When you say "the foundation," do you mean  
23 the charitable foundation?

24 A. The Linda and Ken Lay Family Foundation,  
25 yes.

1 Q. And what was his salary; do you know?

2 A. Sixty thousand.

3 BY SPECIAL AUSA BUELL:

4 Q. Now, did each of these entities, Kenneth  
5 and Linda Lay personally, the investment  
6 partnership, the family partnership and the  
7 foundation, each have their own investment  
8 accounts?

9 A. Correct.

10 Q. And were there multiple accounts for each  
11 entity?

12 A. Correct.

13 Q. Okay. What was your role in relation to  
14 the investment accounts and the people who  
15 were managing those accounts at the  
16 financial firms that handled them?

17 A. I -- if an investment was made, I was in  
18 charge of moving the money to cover the  
19 cost of the investment. I more or less  
20 just moved the money and then I was also  
21 responsible for accurate accounting.

22 Q. Did you relay directives to the investment  
23 account managers on behalf of the Lays or  
24 did they deal directly with those people,  
25 or was it a combination?

1       A.    It was a combination.  There was only one  
2            money manager that I remember that he  
3            would, you know, give me information and  
4            then I would either write it down or tell  
5            Mr. Lay and that was before Mr. Herrold was  
6            hired.

7       Q.    Who was that?

8       A.    That was Don Sanders of Sanders Morris  
9            Monday, and he had discretionary abilities.  
10           So he might, to the best of my knowledge,  
11           or from what I remember, is he would tell  
12           me perhaps why he was investing it, and I  
13           did talk to him at the end of the year for  
14           tax planning purposes to see if there were  
15           any stocks that he would recommend to be  
16           sold, et cetera.

17      Q.    But you didn't have regular dealings with  
18            any of the other investment advisors or  
19            managers?

20      A.    Besides the administrative side, no.

21      Q.    Okay.  And when Mr. Herrold came on in  
22            August of '99, he took even a more active  
23            role --

24      A.    Correct.

25      Q.    -- in dealing with those folks?

1 A. Correct.

2 Q. Okay. How about Enron personnel? What  
3 Enron personnel did you have dealings with  
4 in your duties for the Lay family?

5 A. I talked --

6 Q. And what was the nature of those dealings?

7 A. I talked to Pam Butler. She was in charge  
8 of compensation. I would talk to Elaine  
9 Overturf. She prepared SEC reports for  
10 Enron, and occasionally I would talk to Rex  
11 Rodgers -- well, I shouldn't say  
12 "occasionally." A handful of times I would  
13 talk to Rex Rodgers.

14 Q. And what was his job at Enron?

15 A. He was SEC counsel for Enron.

16 Q. And he was an in-house lawyer; correct?

17 A. Correct.

18 Q. What would be the nature of your dealings  
19 with Ms. Butler? Why would you need to  
20 speak to her or why would she need to speak  
21 to you?

22 A. Whenever I had a question about a program,  
23 a benefit at Enron, she would walk me  
24 through it or answer questions.

25 Q. Would it be fair to say that like most

1           chairmen of large corporations in America,  
2           Mr. Lay's compensation from Enron was  
3           fairly complicated and had a lot of  
4           different aspects to it?

5       A.    Correct.

6       Q.    There were stock options, for example;  
7           correct?

8       A.    Correct.

9       Q.    There was salary?

10      A.    Correct.

11      Q.    There was so-called deferred compensation?

12      A.    Correct.

13      Q.    There were retirement benefits?

14      A.    Correct.

15      Q.    There were bonuses?

16      A.    Correct.

17      Q.    There was a line of credit with the company  
18           during a certain period of time?

19      A.    Correct.

20      Q.    Were there other items as well?  Have I  
21           covered the main ones or were there others?

22      A.    Those are primarily the ones I dealt with.

23      Q.    Okay.  And Ms. Butler would have been your  
24           contact in terms of understanding how these  
25           various parts of his compensation were

1           structured and what types of payments would  
2           be coming and how they should be handled  
3           and so forth?

4       A.    Correct.  And there were like some plans  
5           that had change over the years and I wanted  
6           to make sure that I understood all the  
7           plans and that I had properly documented on  
8           the financial statements.

9       Q.    All right.  And what about Ms. Overturf,  
10           why would you need to speak to her or she  
11           to you?

12      A.    Elain Overturf prepared the Form 4s and 5s,  
13           which are SEC reports that disclose the  
14           sale of Enron stock, or any -- and also  
15           exercise the stock options.

16      Q.    All right.  And so why would you and her  
17           need to speak to each other about that?

18      A.    Well, she would really -- she would like --  
19           she wanted me to review the reports to make  
20           sure that our numbers were the same.  It  
21           was another checks and balances.  She would  
22           get her numbers from one source.  I would  
23           get mine from another source.  So we would,  
24           you know, check each other and that was a  
25           way for me to determine whether that I had

1 an accurate number.

2 Q. And who prepared those SEC reports?

3 A. Elaine Overturf did.

4 Q. Did you give her the data that she used to  
5 prepare them or did she get the data from  
6 someone else, prepare them and --

7 A. She received the data and then I would  
8 compare it against my records and she  
9 prepared the report.

10 Q. Okay. Did you know an employee of Enron  
11 named Sally Keepers?

12 A. Correct.

13 Q. And what was Ms. Keepers job at Enron?

14 A. Sally would handle the travel for, I know,  
15 Mr. Lay; also his agenda. She also would  
16 handle some of the -- of his personal  
17 affairs.

18 Q. Was she a secretary or administrative  
19 assistant, executive assistant? What was  
20 her title?

21 A. I don't know her correct -- I don't know  
22 her title.

23 Q. And was she working in that capacity at  
24 Enron for Mr. Lay throughout the period you  
25 were working for the Lays?

1 A. She had been with him for -- I know for  
2 like 14 or 15 years. I think she was with  
3 him since '86.

4 Q. All right. Did you know an Enron employee  
5 named Rosalie Fleming?

6 A. Correct.

7 Q. And what was Ms. Fleming's job at Enron?  
8 What did she do?

9 A. She is the executive assistant to Mr. Lay.

10 Q. How did her job differ from Ms. Keepers?

11 A. Rosalie would do the scheduling for Mr.  
12 Lay, answer the telephones, have  
13 secretarial duties.

14 Q. What dealings, if any, would you need to  
15 have with Ms. Keepers or she with you?

16 A. During her personal dealings, we may -- she  
17 also would pay some bills as well, and she  
18 would handle turning in the receipts for  
19 any medical expenses.

20 She would also make the deposits or  
21 prepare the deposits. If I received any  
22 checks, then she would prepare the  
23 deposits.

24 Q. Why would she handle that as opposed to  
25 you?



1 A. She was closer to the bank.

2 Q. Okay. Where did Mr. Lay bank for cash  
3 purposes?

4 A. At Bank of America.

5 Q. All right. Anything else Ms. Keepers would  
6 do in relation to your job?

7 A. Besides the -- having questions about  
8 checks or -- she handled the insurance on  
9 the personal properties. And I just don't  
10 remember at this time.

11 Q. All right. What about Ms. Fleming? What  
12 need would you have to deal with her or she  
13 with you?

14 A. She was would just call me about -- if --  
15 to set up a meeting or -- that's really the  
16 only dealings I had.

17 Q. All right. And you mentioned that you had  
18 a handful of dealings with Mr. Rodgers.

19 A. Correct.

20 Q. What were the occasions for those  
21 interactions?

22 A. Mr. Lay asked me to call Mr. Rodgers to see  
23 whether a transaction, whether he was able  
24 to sell stock at a certain time and I did  
25 that. That was early on in '98 or so.

1                   Also I talked to Mr. Rodgers. We were  
2                   doing a transaction and the appraisers -- a  
3                   transaction that involved getting an  
4                   appraisal of a partnership that had some  
5                   Enron stock, and I was asked to find out  
6                   the window or some information about when  
7                   -- just in general when Enron stock could  
8                   be sold. So I called Mr. Rodgers and asked  
9                   what the policy was on trading stock.

10       Q.    Do you remember when that was,  
11             approximately?

12       A.    Yes. That was November, December of '98  
13             and then the end of November, beginning of  
14             December of 2000.

15       Q.    Which was which? I'm sorry, I lost you. I  
16             thought you were talking about one  
17             conversation about appraising a  
18             partnership.

19       A.    Well, it was two separate times. I  
20             apologize.

21       Q.    All right. The second time was when?

22       A.    Was December of 2000.

23       Q.    Okay. By the way, how do you know those  
24             dates? Do you have some records that have  
25             shown that to you or do you just remember?

1 A. Well, it was -- this transaction just took  
2 a lot of time and it was around Christmas  
3 and I just for -- just remember those  
4 dates.

5 Q. What partnership was this?

6 A. This had to do with the KLL and LPL  
7 Investments.

8 Q. All right. Why was that being appraised?  
9 Was it being used as collateral for  
10 something?

11 A. No. They were going to do a redemption.  
12 They were appraising the partnership and  
13 then Mr. Lay was going to redeem part of  
14 his interest. And in order to do that, you  
15 had to get an appraisal of the partnership.

16 And once it was -- the value was  
17 ascertained, then he would redeem a certain  
18 part of his partnership and then they would  
19 draw out -- he would get some assets and as  
20 an end result, he would have less interest.

21 Q. Okay. What else do you recall discussing  
22 with Mr. Rodgers?

23 A. I might have had more than one  
24 conversation, but it was always around  
25 about the same thing, about the window. I

1           did talk to him -- I think one time was  
2           discussed about when the stock was sold  
3           back to Enron, if we needed to contact him.

4       Q.   And when you say that, you're referring to  
5           transactions in which Mr. Lay repaid his  
6           line of credit with stock option?

7       A.   Of credit with Enron stock; correct.

8       Q.   Okay. We'll come back to that a little  
9           later, but other than that, do you remember  
10          any conversations specifically with Mr.  
11          Rodgers at any time about any particular  
12          time frame or transaction?

13      A.   No.

14      Q.   Okay. Now, why was -- what was your  
15          understanding as to why Mr. Herrold was  
16          hired in August of '99, and what was he  
17          hired to do?

18      A.   He was hired to coordinate or get the big  
19          picture. I was so caught up in the detail  
20          in trying to reconcile and get everything  
21          that I couldn't stand back and look to see  
22          what was really going on. I was just more  
23          focused on trying to get all the detail, so  
24          people receiving the reports could then  
25          make, you know, make what decisions they

1           needed to or -- that the information was  
2           accurate.

3                       So Mr. Herrold was hired to take more  
4           of a global approach or look at the big  
5           picture and to coordinate any investments  
6           with the investment advisors.

7       Q.   And after Mr. Herrold came on, did you  
8           participate in any kind of like regular  
9           meetings with him and Mr. Lay or did he  
10          deal directly with Mr. Lay without you?

11       A.   He would deal directly with Mr. Lay.

12       Q.   By the way, did you ever have any dealings  
13          with Mr. Derrick at Enron?

14       A.   No.

15       Q.   Okay. Focusing your attention for the  
16          moment on the year 1999, how much  
17          approximately, if you can give us a rough  
18          number, was Mr. Lay's net worth in 1999  
19          between the family and the investment  
20          partnership? I mean, him and Linda and the  
21          investment partnership, leaving aside the  
22          family partnership.

23       A.   I don't remember.

24       Q.   Do you have any approximate number you can  
25          give us, in the hundreds of millions or

1           tens of millions?

2       A.    I would be speculating.  I mean, that's  
3           two, three years ago.

4       Q.    Okay.  More or less than a billion?

5       A.    Oh, less than a billion.

6       Q.    More or less than 500 million?

7       A.    Less than 500 million.

8       Q.    Okay.  More than a hundred million?

9       A.    Between -- more -- well...  A hundred to  
10           two hundred million.  But that is really an  
11           estimate at this time.

12      Q.    Okay.  That's all I was asking you for.  
13           What about in '99 a rough estimate of the  
14           amount of debt that Mr. Lay had?

15      A.    I really don't remember.

16      Q.    Okay.  What about the year 2000?  Can you  
17           recall either a rough estimate of net worth  
18           or debit for the year 2000?

19      A.    Just from working on, I guess, production  
20           requests from the government, around 80  
21           million of debt.

22      Q.    And the net worth, do you recall that being  
23           essentially different than what it would  
24           have been in '99?

25      A.    I'm going to estimate or speculate about

1           250, 300 million.

2       Q.    Now, the Lay Family Partnership, had that  
3           already been created when you began working  
4           for the Lays in '97?

5       A.    Correct.

6       Q.    And was it making distributions to the  
7           family already at that time?

8       A.    To the best of my knowledge, I don't think  
9           so.

10      Q.    Did there come a time when it began making  
11           distributions?

12      A.    It did.

13      Q.    And do you remember when that was?

14      A.    Oh, I would estimate 1998 or '99.

15      Q.    Do you remember approximately what the  
16           distribution -- the distributions were  
17           monthly; correct?

18      A.    Correct.

19      Q.    Do you remember approximately what they  
20           were when they began?

21      A.    I cannot remember.

22      Q.    Do you remember what they were at their  
23           most?

24      A.    At their most...

25      Q.    I'm just asking for approximate amounts,

1 Ms. Gibson. We're not going to hold you to  
2 a specific number here.

3 A. I know. It's just in my profession, you  
4 know, I try to be exact and it's just -- I  
5 always like to refer back to documents  
6 before I give answers.

7 Q. We understand that you're -- we understand  
8 you to be saying that you could be more  
9 precise if you had documents, and so no one  
10 is going to hold to you to a specific  
11 number.

12 A. Okay.

13 Q. We're just asking you to give us an  
14 approximate amount for purposes of our  
15 discussion today?

16 A. Approximately 30,000 a month. At the  
17 beginning we're talking -- there were two  
18 different partnerships and the family  
19 partnership had an interest in the  
20 investment partnership.

21 So when the investment partnership  
22 would make distributions, it would be, you  
23 know, to all the partners and one of the  
24 partners was this family partnership.

25 Q. And then it would flow through the --



1 A. Correct. So when you -- you know, the  
2 family partnership didn't always have to  
3 give, you know, distributions. So that's  
4 why I was having trouble because it was --  
5 whenever I'd make the distribution, it  
6 would be like three or four different  
7 checks or ways I would do it because of how  
8 it would flow through. So in total, I'd  
9 say approximately 30,000.

10 Q. Okay. By the way, who made all the  
11 decisions about how to structure these  
12 partnerships and set up the amount of the  
13 flows and all that. Who's --

14 A. To my knowledge, it was some estate  
15 planning done by Stacy Eastland, an  
16 attorney who had worked with Baker & Botts.

17 Q. Who gave you all the information that you  
18 needed in terms of how this structure was  
19 supposed to operate? Who did you get that  
20 from?

21 A. I would review the documents. There was a  
22 consultant that worked prior to me and she  
23 would assist me because she was there when  
24 it was being set up. And then I also had  
25 -- the CPAs at Margolis, Phipps & Wright

1           would also assist me. And then if I had  
2           any detailed questions, I would call the  
3           law firm.

4       Q.    Baker & Botts?

5       A.    Correct, I'm sorry. Yes. Stacy Eastland's  
6           assistant.

7       Q.    Focusing your attention on the year 2000  
8           or, say, the end of the year 2000, could  
9           you give us an approximation of the net  
10          worth of the family partnership at that  
11          time?

12      A.    There was a redemption of -- in December,  
13           so the net worth was less at the end of  
14           December than it would have been at the end  
15           of November.

16      Q.    And what was it approximately at the end of  
17           November?

18      A.    I want to say it was approximately, from  
19           what I can remember, a hundred million.

20      Q.    Did you have occasion to deal with Rocky  
21           Emery at all?

22      A.    Correct. I did.

23      Q.    And what was Mr. Emery's role in Mr. Lay's  
24           financial affairs?

25      A.    Mr. Emery was his -- was one of the

1 investment advisors -- or I should say, he  
2 was the investment advisor. His firm or  
3 team would actually monitor the performance  
4 of other money managers chosen.

5 Q. Would it be fair so say that Mr. Emery was  
6 Mr. Lay's stockbroker?

7 A. Correct.

8 Q. And what firm was he at?

9 A. He was at PaineWebber and then in --  
10 approximately in July of 2001, he move to  
11 First Union Securities.

12 Q. How did Mr. Emery become Mr. Lay's broker,  
13 if you know?

14 A. Approximately -- well, in about 1998, Mr.  
15 Lay started interviewing different advisors  
16 or was seeking to diversity his portfolio.  
17 So I remember sitting in a few meetings and  
18 he would interview various firms.

19 Q. But you don't know of any particular reason  
20 why Mr. Emery was selected as Mr. Lay's  
21 broker? It wasn't a prior relationship or  
22 some mutual --

23 A. Well, I do know why he was one of those  
24 invited originally, was because his  
25 affiliation with -- PaineWebber handled the

1 stock options for Enron and through that  
2 affiliation, or I guess he was known, he  
3 was invited to talk with the group.

4 Q. Okay. Now I'm focusing your attention for  
5 the moment on the period from '97 until  
6 just prior to when Mr. Herrold became  
7 involved in the family finances.

8 What role, if any, did you have in  
9 transactions at which Mr. Lay was  
10 purchasing, selling or otherwise  
11 transacting in Enron stock?

12 Would you be, for example, involved in  
13 relaying directives about that to the  
14 broker or would you be involved in any of  
15 the discussions with Enron personnel about  
16 whether that was cleared or not cleared,  
17 what reports should be filed, would not be  
18 filed?

19 A. All the above at different times.

20 Q. Okay. Was there any particular routine  
21 that was followed when Mr. Lay transacted  
22 in Enron stock?

23 A. Could you given a specific transaction and  
24 then I could --

25 Q. Well, I guess I'm not asking about any

1           specific transaction at this point. I'm  
2           just asking if generally --

3       A.    Or type of transaction?

4       Q.    Well, if Mr. Lay wanted to sell Enron  
5           shares that he held in any of his  
6           investment accounts, what role, if any,  
7           would you play in that process?

8       A.    He might have asked me to -- well, that  
9           would be speculating. I would say prior to  
10          Mr. Herrold being hired, I would speak to,  
11          you know, Mr. Rogers whether or not that  
12          that window was open.

13      Q.    What do you mean by that? Could you just  
14           explain that to the Grand Jury? When you  
15           use the phrase "the window open," what are  
16           you referring to?

17      A.    There's certain times that, I guess, people  
18           that are executives are not allowed to sell  
19           their stock, so I would need to call the  
20           attorney because there was not a formal  
21           window -- I mean a formal policy. Then I  
22           would call the attorney and he would say  
23           whether or not it was possible to do that  
24           transaction.

25      Q.    Was that always Mr. Rogers?

1 A. Yes, that's who I would talk to.

2 Q. And what about if Mr. Lay wanted to  
3 exercise stock options, would that be  
4 handled any differently?

5 A. No. He was the same. He was the same  
6 person I would talk to.

7 Q. And it was still a process of determining  
8 whether or not, with the attorneys at Enron  
9 whether or not the window was open?

10 A. Correct. Well, if you would -- if Mr. Lay  
11 would exercise his stock options, that's  
12 when a stock option would become a share of  
13 stock, and you didn't sell it but just they  
14 call if exercise to hold, then you wouldn't  
15 need to call Mr. Rogers. It wouldn't be  
16 until you actually sold the share.

17 Q. And what would be the reason to exercise to  
18 hold as opposed to exercise and sell?

19 A. If you wanted to accumulate more shares and  
20 you think the stock is going up -- I'm  
21 looking at this from a tax point. You  
22 would exercise to hold. You would lock in  
23 at a certain price and then if you held the  
24 stock for a year and sold it, then you  
25 would pay a long-term capital gains rate.

1           So instead of paying a 40 percent, you'd  
2           pay a 20 percent, if you're -- depending,  
3           you know, what tax bracket you were in.

4       Q.   Do you recall -- prior to Mr. Herrold's  
5           involvement in August of '99, do you recall  
6           any occasions when you sought to determine  
7           from Mr. Rodgers or anyone else at Enron  
8           whether the window was open because Mr. Lay  
9           wanted to engage in a sale of some sort and  
10          you were told he could not or it was not  
11          open?

12       A.   No.

13       Q.   Are you pretty sure that never happened?

14       A.   I don't know -- I mean, if it ever -- when  
15           I asked, but I don't know if, you know,  
16           Mr. Lay had asked him or anything else.

17       Q.   I mean to limit the question to your  
18           personal knowledge. My question was simply  
19           intended to determine whether you were  
20           saying you don't remember whether or not it  
21           happened or you were saying you know it  
22           didn't happen, to your knowledge?

23       A.   Oh. To my knowledge, when I asked Mr.  
24           Rodgers, I was never told that no, that the  
25           window was closed -- well, I was told the

1 window was closed.

2 Q. Okay. After Mr. Herrold joined in August  
3 of '99, was there any change in the process  
4 in terms of when Mr. Lay wanted to dispose  
5 of Enron stock, in terms of your  
6 involvement in the process?

7 A. He would contact Beau directly and then  
8 Beau would call me.

9 Q. Okay. To your knowledge, did Beau  
10 sometimes deal directly with the people at  
11 Enron as well, such as Mr. Rodgers?

12 A. Yes.

13 Q. How often during the period '97 through  
14 '99, if you, you know, can recall, how  
15 often would you estimate Mr. Lay engaged in  
16 a transaction in which he sold Enron stock?  
17 Was this a frequent or a common occurrence?  
18 Was it rare, monthly, weekly?

19 A. Would that include cashless stock option  
20 exercises?

21 Q. Yes.

22 A. Occasionally -- is this '97 through '99?

23 Q. Yes.

24 A. End of '99?

25 Q. Yes.



1       A.    I don't remember the exact occurrence.  
2            There were some transactions that are  
3            called cashless stock option exercises and  
4            that is when you will exercise a stock  
5            option but then you sell the stock  
6            immediately and you get the net proceeds,  
7            the difference between whatever the price  
8            of the stock is and the strike price.

9                    That -- to the best of my knowledge,  
10            and I'm estimating, approximately less than  
11            eight times in '98, '99.

12       Q.    Okay.  And were those the most -- to the  
13            extent he did engage in transactions where  
14            he sold shares or otherwise disposed of  
15            shares or options, were those the most  
16            common type --

17       A.    Correct.

18       Q.    -- those cashless option exercises?

19       A.    Correct.

20       Q.    Okay.

21       BY SPECIAL AUSA KIMBALL:

22       Q.    And for a cashless exercise, you'd have to  
23            get permission from Rex Rodgers first,  
24            because that's like a --

25       A.    To my knowledge, yes.

1 Q. Because that would be like an exercise to  
2 sell?

3 A. Correct.

4 BY SPECIAL AUSA BUELL:

5 Q. Okay. At some point did you become aware  
6 -- and I think you mentioned this earlier  
7 in your testimony, that Mr. Lay had a line  
8 of credit with the company?

9 A. Yes.

10 Q. And was that something that was in  
11 existence at the time you began working for  
12 him in '97?

13 A. Yes.

14 Q. And was that a so-called revolving line of  
15 credit, meaning that Mr. Lay could draw it  
16 down, pay it back, draw it down, pay it  
17 back?

18 A. That was my understanding of it.

19 Q. Okay. And there was always a cap on the  
20 amount that could be drawn down at any  
21 given time; correct?

22 A. Correct.

23 Q. And was that during '97, '98, '99, 2000, \$4  
24 million, or did it change?

25 A. To the best of my knowledge, it was four

1 million.

2 Q. Okay. During the period -- well, let me  
3 ask you this. Did you ever see any  
4 documents from Enron that evidenced to you  
5 what the rules were on this line of credit  
6 or how it had been approved by the company,  
7 or were you just told orally about it?

8 A. I did not have any documents, but it was in  
9 existence before I started.

10 Q. You didn't see, for example, the board  
11 minutes approving it or any resolution that  
12 had been adopted by the company that put  
13 terms on it, explained how it could be  
14 used, or anything like that?

15 A. Not in the time frame you're asking.

16 Q. Yeah, and I'm asking you about the period,  
17 say, prior to 2001?

18 A. Correct. I did not have that.

19 Q. Okay.

20 A. Well, prior to that there was a change in  
21 the -- or amendment to that where instead  
22 of repaying the line of credit with just  
23 cash, you were able to repay it with  
24 shares.

25 Q. Okay. When did that happen?

1 A. That happened in May of '99.

2 Q. And did you see any documents about that  
3 aspect of the line of credit at or around  
4 that time?

5 A. Yes, I did. There was some compensation  
6 committee minutes.

7 Q. Compensation committee being a committee of  
8 Enron's board of directors?

9 A. Yes.

10 Q. All right. And you saw the minutes that  
11 talked about the approval for the repayment  
12 of the line of credit with options?

13 A. Correct.

14 Q. And what was the occasion for you to be --  
15 I mean, what was the purpose for you to be  
16 looking at those or for someone to provide  
17 you with those?

18 A. I had received a copy of a letter that Mr.  
19 Lay had written instructing that he was  
20 going to pay -- use some shares to pay down  
21 his line of credit.

22 And that hadn't occurred before and so  
23 I called Pam Butler and asked her how to  
24 handle it.

25 Q. All right.

1 A. Or what was the occasion or what was the  
2 next step I needed to do.

3 Q. Okay. And tell us about that conversation  
4 and what flowed from it?

5 A. I asked like if there were any restrictions  
6 and so she faxed to me like two pages -- I  
7 don't know if it was just a resolution. It  
8 wasn't a complete set of minutes -- that  
9 just dealt with the amendment in order for  
10 him to repay the line of credit with  
11 shares. And in that it gave some  
12 guidelines.

13 Q. What do you recall about the guidelines?

14 A. The most pertinent fact that I remember is  
15 that you had five days to deliver the  
16 shares.

17 Q. Five days from when?

18 A. Day of notification, five business days.

19 Q. Date of notification that you were drawing  
20 down the line or notifying that you were  
21 paying back?

22 A. That you were going to pay back, that you  
23 were going to pay back the line of credit  
24 with shares.

25 Q. All right. Anything else you remember

1           about the provisions of the approval for  
2           this?

3       A.    I was focusing on the delivery aspect  
4           because I was -- that was my job, is to  
5           make sure that it was done. So then I was  
6           reading the minutes and to me they were  
7           somewhat vague, so I wrote kind of a list  
8           of guide -- like a checklist for myself on  
9           what to do.

10                   And I faxed Pam Butler a copy and I --  
11           of these guidelines. I said, "Is this your  
12           understanding? If I do this, will I meet  
13           the criteria?" And they say, "Yes."

14       Q.   What do you recall about what you put on  
15           those guidelines?

16       A.   First, that there were be notification of  
17           when the payment would be made and then it  
18           would go to different individuals.

19       Q.   Who?

20       A.   Pam Butler. I think a copy to Elaine  
21           Overturf and a copy to an individual -- it  
22           changed -- in accounting. And I might -- I  
23           mean, that's the best of my knowledge.  
24           They may be different names or different  
25           departments. I don't -- there may have

1           been another one.

2                   And then the second thing after  
3           notification was done, then -- well, I  
4           would call accounting and they would accrue  
5           interest and then they would fax that to  
6           Elain Overturf, who would then take the  
7           amount that was due plus the accrued  
8           interest and then she would calculate the  
9           number of shares needed to pay back the  
10          line of credit.

11       Q.   And when would she take the share price to  
12           determine that?

13       A.   It would be the closing price of that day.

14       Q.   Okay. And then would she then given that  
15           information back to you?

16       A.   Yes. Then she would given it to me and  
17           then it was my job then to, you know, look  
18           at his shares and then to select which  
19           shares that we would -- that would be used  
20           to repay that line of credit.

21       Q.   And how would you choose which shares to  
22           use? In other words, Ms. Overturf would  
23           tell you you needed X amount of shares  
24           priced at this price in order to meet this  
25           amount that's due of principal and

1 interest. Then how would you pick which  
2 shares to use to meet that share amount?

3 A. Well, I would select the shares that would  
4 result in the lowest tax gain.

5 Q. Okay. So you would want to use the shares  
6 that had the highest tax basis?

7 A. Highest -- correct.

8 Q. Okay. And what would you do after that?

9 A. Well, once those shares were identified,  
10 the shares were all used as collateral or  
11 were at different places. So then,  
12 depending on where they were, then I would  
13 notify the institution that I was  
14 withdrawing those shares and then I would  
15 coordinate the delivery of the shares to  
16 Enron. It could have been electronically.  
17 It could have been stock certificates.  
18 They are all different types of ways to do  
19 it.

20 Q. What understanding did you have, if any, at  
21 the time as to why this had been set up,  
22 that Mr. Lay could repay the line of credit  
23 with options?

24 A. I don't know.

25 Q. Were you ever told --



1 A. No.

2 Q. -- that information?

3 A. No.

4 Q. You don't know who had requested it, who  
5 initiated this proposal to the board of  
6 directors or what the motivation was for  
7 it?

8 A. No.

9 Q. Well, let me show you a document, which I'm  
10 going to ask you to refer to at various  
11 points in my questions here. It's marked  
12 Grand Jury Exhibit KL-15. This is at Tab  
13 15 of the Grand Jurors binders.

14 [Grand Jury Exhibit No. KL-15  
15 marked for identification and  
16 made a part of the record.]

17 BY SPECIAL AUSA BUELL:

18 Q. Without going through this in detail right  
19 now, does this appear to be a collection of  
20 documents -- if you want to just flip  
21 through some of them -- a collection of  
22 some of the documents relating to the  
23 process of -- that you have just described  
24 that was followed when Mr. Lay sought to  
25 repay his line of credit with stock

1 options?

2 A. Correct.

3 Q. All right. I want to focus your attention,  
4 if I could, on the first portion of those,  
5 and they're ranked in chronological order.  
6 And if you could just leaf through the ones  
7 that bear dates, mainly in the year 1999,  
8 and just if you could take a minute and  
9 leaf through those for yourself.

10 My question when you're finished is  
11 going to be whether those documents, the  
12 ones dated '99, appear to you to be  
13 reflective of what all of the transactions  
14 of this type that Mr. Lay conducted in the  
15 year 1999?

16 A. These particular documents appear to --  
17 will involve the repayment of the Enron  
18 shares to the line and there also is a gift  
19 he made.

20 Q. All right. What's the date on the document  
21 you're referring to?

22 A. Well, the gift --

23 Q. Is that the June 30th?

24 A. June 30th; right.

25 Q. And that's the University of Missouri?

1 A. Correct.

2 Q. Okay. And the other documents from '99 are  
3 repayments of the line of credit with  
4 options?

5 A. Correct.

6 Q. Okay. Directing your attention to the  
7 first one, the one dated May 12th of '99,  
8 does that letter appear to you to relate to  
9 the first such transaction that you  
10 described as being the impetus for your  
11 discussions with Ms. Butler and your  
12 creations of procedures?

13 A. Correct. Correct.

14 Q. All right. Is that your handwriting at the  
15 bottom of that page?

16 A. No, it's not.

17 Q. Do you know whose handwriting that is,  
18 where it says, "See Pam Butler for  
19 details"?

20 A. No.

21 Q. Okay. Do you recall there being any  
22 additional such transactions in '99 other  
23 than the ones that are reflected on these  
24 documents?

25 A. No. I've taken an opportunity to review in

1           my mind and no, there was just two in '99.

2       Q.    Two in 99?

3       A.    Yes.

4       Q.    The one in May and then the one in  
5           November?

6       A.    November, correct.

7       Q.    Okay.

8       A.    And I think before when you asked me if  
9           there were any more transactions in Enron  
10          stock, I did not mention the contributions  
11          or the gifts of stock he made. That was an  
12          oversight.

13      Q.    Okay. I wasn't -- yeah, I didn't mean my  
14          questions to include gifts.

15      A.    Oh, okay.

16      Q.    I meant to include transactions in which  
17          Mr. Lay would have realized any gains or  
18          income from Enron stock.

19      A.    Okay.

20      Q.    By the way, what did you -- well, let me  
21          ask you this first. These procedures that  
22          you wrote out and faxed to Ms. Butler, have  
23          you seen that document recently? Does it  
24          still exist?

25      A.    Yes.

1 Q. Okay. Has it been produced to anybody?

2 A. Mr. Kimball. I think I showed it during  
3 our meeting.

4 Q. You did? Okay. And the documents that you  
5 reviewed to refresh your recollection in  
6 preparation for your testimony here about  
7 the line of credit transactions, what  
8 documents did you look at?

9 A. The only one I really was a summary of all  
10 the advances and paybacks.

11 Q. For what period?

12 A. Just for 2001 and I looked at it very  
13 briefly because in '99 there were two and  
14 then in 2000 there were four.

15 Q. Okay. I'm going to show you a document  
16 that summarizes transactions in 2001, and  
17 ask you if this was the document you  
18 reviewed in preparation for your testimony.  
19 It's marked Grand Jury Exhibit KL-21 and  
20 it's at Tab 21 of the Grand Jurors'  
21 binders.

22 A. Correct. That's the one.

23 Q. That's the document you reviewed?

24 A. Yes.

25 Q. Okay. And having reviewed that, is that

1 document, the activity reflected on that  
2 document, consistent with your  
3 recollection about the number and frequency  
4 of the transactions in 2001?

5 A. Correct.

6 Q. Okay. I'll leave that here. So two such  
7 transactions in '99 and then your  
8 recollection is there were only four in  
9 2000?

10 A. Correct.

11 Q. All right. I'm going to ask you to leaf  
12 through on Grand Jury Exhibit KL-15 and  
13 continuing, if you could leaf through the  
14 pages that bear dates ending in the year  
15 2000, and let me know whether those appear  
16 to reflect the four transactions that you  
17 recall from the year 2000.

18 A. Correct.

19 Q. They do?

20 A. Yes.

21 Q. Okay. And so what were the approximate  
22 dates of the four transactions in which Mr.  
23 Lay repaid the line of credit with stock  
24 options in the year 2000?

25 A. With shares of stock?

1 Q. Yes.

2 A. February of 2000, August of 2000, November  
3 of 2000, and December of 2000.

4 Q. Okay. Do you see on the letter that it's  
5 dated February 15th, 2000? Again, they are  
6 arranged in chronological order.

7 A. Yes.

8 Q. Do you see a note at the bottom, a  
9 handwritten note saying, "Do not report  
10 until 2/14/01"? Do you see that note?

11 A. I see that.

12 Q. Is that your handwriting?

13 A. No.

14 Q. Do you know whose handwriting that is?

15 A. I would have to speculate.

16 Q. Okay. I don't want you to speculate on  
17 that.

18 A. I mean, because there's some document I'd  
19 recognize handwriting because I've -- but  
20 no, I don't know. I'm sorry.

21 Q. All right. Let me ask you this. Prior to  
22 2001, during '99 and 2000, from the time in  
23 May of '99 when up first learned about  
24 these transactions of repaying the line of  
25 credit with stock through 2000, did you

1           have any conversations with anybody, Mr.  
2           Lay, anyone else in the family, or anyone  
3           at Enron about any reporting rerequirements  
4           or issues, SEC reporting requirements or  
5           issues relating to these transactions?

6       A.   Who -- could you please repeat that  
7           question?

8       Q.   Yeah. I mean, it was a fairly broad  
9           question. If you want, I can break it  
10          down, but what I was asking you was whether  
11          you had any conversations in '99 or 2000  
12          with Mr. Lay, anyone in the family, or  
13          anyone at Enron, including all the people  
14          we've talked about so far about SEC  
15          reporting issues relating to these  
16          transactions, repaying the line of credit  
17          with stock?

18      A.   The only person that I discussed this with  
19          was Elain Overturf, and how that occurred  
20          is when I was reconciling the number of  
21          shares per the books to the number of  
22          shares being reported on the Form 4, which  
23          is a monthly filing, I had a discrepancy.

24                 And this occurred in May of '99 because  
25          my books were reflecting less shares than



1           the Form 4. So I called Elain and I wanted  
2           to see, you know, what I had missed or why  
3           we were different.

4       Q.   And how did -- I mean, you were just  
5           talking about the numbers on the Form 4?

6       A.   Correct.

7       Q.   All right. Did you have any conversation  
8           with Ms. Overturf about how SEC rules would  
9           require or not require this activity to be  
10          reported?

11      A.   I don't know that I would have talked to  
12          her at that time.

13      Q.   Okay. I mean to limit you for now to '99  
14          and 2000. Ms. Overturf or anyone else  
15          about whether this had to be reported,  
16          didn't have to be reported, which form it  
17          should go on?

18      A.   I did discuss it would Elain, but I don't  
19          remember the time period.

20      Q.   Okay. What do you recall about your  
21          discussion with her?

22      A.   Well, another item that would not appear on  
23          the monthly Form 4's was if gifts were made  
24          and so the gifts and the shares sold back  
25          to Enron were going to be reported at the

1           end of the year on an annual form which was  
2           a Form 5, or they could have been also  
3           filed on a Form 4 for January of the  
4           following year.

5       Q.    Okay.  This is all information that Ms.  
6           Overturf was conveying to you about the SEC  
7           rules or was this something that you  
8           independently had made a determination of?

9       A.    Someone relayed this information to me.  To  
10          the best of my knowledge, it was Ms.  
11          Overturf.

12      Q.    Okay.  Anything else you recall about  
13          discussions about SEC reporting  
14          requirements as it affected the line of  
15          credit transactions?

16      A.    Well, the common thread with the delay in  
17          reporting was that they were not over the  
18          -- it was not an open market transaction.

19      Q.    Okay.  When you say "the delay in  
20          reporting," you had an understanding from  
21          these conversations that these transactions  
22          didn't need to be reported on the so-called  
23          Form 4's, which are the monthly reports of  
24          stock transactions by company executives  
25          with the SEC, but rather could be reported

1           on the so-called Form 5's, which are annual  
2           reports for executive stock transactions?

3       A.   That was my understanding per my discussion  
4           with Ms. Overturf, based upon either her or  
5           the company's review of the rules, SEC  
6           rules.

7       Q.   And you were made to understand that the  
8           reason these transactions qualified for  
9           Form 5 annual reporting as opposed to Form  
10          4 monthly reporting was that they were  
11          viewed as transactions with the company as  
12          opposed to transactions on the open market?

13      A.   Correct.

14      Q.   All right. Directing your attention to the  
15          second document marked "Draft," also dated  
16          February 15th, 2000 -- I mean, the second  
17          document that bears the date February 15th,  
18          2000. There are two February 15ths and I'm  
19          directing your attention to the second one  
20          that has handwritten on the top draft and  
21          typed at the top Ken's letterhead. Have  
22          you located that document?

23      A.   Yeah, that's -- I actually typed that.

24      Q.   Okay. That document also bears handwriting  
25          at the bottom that says, "Do not report

1           until 2/14/01." And then next to it, "Told  
2           Sherrie it was okay 2/16/00." Do you know  
3           whose handwriting that is?

4       A.   No. I'm not a hundred percent certain, but  
5           it appears to be Ms. Overturf's, but I'm  
6           speculating.

7       Q.   Okay. And the note, "Told Sherrie it was  
8           okay," do you know what that's a reference  
9           to? Does that prod any recollection in  
10          your own mind or thought about what that  
11          might be a reference to?

12      A.   No, because sometimes I would fax Elain  
13          these letters to make sure that I was  
14          wording things properly, that I was giving  
15          clear direction since, you know, that I was  
16          explaining myself well, and so I don't know  
17          why.

18      Q.   Okay. Now do you see that on some of these  
19          documents we've been looking at there's a  
20          Deanna Taylor on the cc list?

21      A.   Yes.

22      Q.   Who's she?

23      A.   To the best of my knowledge, she was  
24          someone someone in accounting.

25      Q.   At Enron?

1 A. Correct.

2 Q. Okay. Now directing your attention to the  
3 Enron memorandum dated August 24th of 2000.

4 A. Oh, okay.

5 Q. Interoffice memorandum dated August 24th of  
6 2000. Do you see that document?

7 A. Correct.

8 Q. From Mr. Lay, "Subject: Enron Line of  
9 Credit." Do you see at the bottom the cc  
10 list include Elain Overturf and then Mary  
11 Joyce, Bob Butts and then Rocky Emery; do  
12 you see that?

13 A. Yes.

14 Q. Who's Mary Joyce and why would she have  
15 been copied on the documents relating to  
16 these transactions?

17 A. From what I remember, I think Mary Joyce is  
18 also in compensation. She worked with Pam  
19 Butler at Enron. I don't know why -- that  
20 was one of the departments. I guess I would  
21 have to speculate.

22 Q. Okay. Someone at Enron decided to copy her  
23 on this?

24 A. Correct. Yeah.

25 Q. What about Bob Butts? Who is he and if you

1 know, why was he copied on documents  
2 relating to these transactions?

3 A. Bob Butts was a controller of Enron in  
4 accounting. It appears to me -- I mean,  
5 I'm speculating, but it's the same  
6 departments but just different people.

7 SPECIAL AUSA BUELL: Okay. Why  
8 don't we take a break for 10  
9 minutes.

10 [Witness out, 11:05 a.m.]

11 [Recess.]

12 [Witness in, 11:21 a.m.]

13 FOREMAN OF THE GRAND JURY: We  
14 have a quorum.

15 BY SPECIAL AUSA BUELL:

16 Q. Ms. Gibson, you understand that you're  
17 still under oath?

18 A. Yes, sir.

19 Q. Okay. Backing up for a moment to my  
20 questions at the outset regarding your  
21 salary, was there something you could  
22 clarify for us with respect to how you were  
23 compensated for overtime above that 90,000  
24 salary for the 35 hours?

25 A. Yes. The 90,000, from what I remember, to

1           the best of my knowledge, it was 90,000,  
2           was based on 35 hours and anything over 35  
3           hours I was paid time and a half.

4       Q.    Okay.  And as you said before, there were  
5           some weeks when you worked more than 35  
6           hours?

7       A.    Correct.

8       Q.    All right.  Now I want to move forward to  
9           the year 2001.  Would it be fair to say  
10          that there was an increase in 2001 in the  
11          number and frequency of these transactions  
12          in which the line of credit was repaid with  
13          stock?

14      A.    Yes.

15      Q.    All right.  Directing your attention again  
16          to that summary, which is exhibit KL-21,  
17          Tab 21 in the Grand Jurors' binders, is  
18          that a summary that reflects each advance  
19          on the line of credit and payback with  
20          shares that occurred during 2001?

21      A.    Yes.

22      Q.    And would it be fair to say that there was,  
23          as reflected on this sheet numerous such  
24          transactions during the year?

25      A.    Correct.

1 Q. And that many or most of them included a  
2 drawdown on the line of credit in the full  
3 amount of \$4 million, which was then  
4 repaid?

5 A. Correct. Looking at this, you know, in  
6 February and April of 2001, those three  
7 combined made 4 million.

8 Q. So there was an advance in January of 4  
9 million that was repaid?

10 A. Correct.

11 Q. Then three advances totaling 4 million in  
12 February and April that were repaid in  
13 April?

14 A. Correct.

15 Q. And then there were a series in May and  
16 June of \$4 million advances, each repaid in  
17 the full amount of 4 million?

18 A. Correct.

19 Q. And there were some more August, one in  
20 July and then some more in August?

21 A. Correct.

22 Q. Each the full amount?

23 A. Correct.

24 Q. And then there was an advance on September  
25 6th and then there were some further



1 advances in late October; correct?

2 A. Correct.

3 Q. And the last payback occurred with shares  
4 on October 26th?

5 A. Correct.

6 Q. And would it be fair to say that the total  
7 amount of such transactions during the year  
8 2001 was in the tens of millions of  
9 dollars?

10 A. Correct. The total is at the very bottom.

11 Q. The total at the very bottom is over 77  
12 million?

13 A. Correct.

14 Q. Okay. Now directing your attention to  
15 January of 2001, again I'm just asking for  
16 approximate numbers, if you recall. Do you  
17 remember approximately how much debt Mr.  
18 Lay had in January of 2001?

19 A. I think as I said before it was  
20 approximately 80 million.

21 Q. And as -- I'm sorry?

22 A. Maybe we should clarify because I think  
23 before when we talked about debt, there's  
24 the personal debt and then there's the  
25 debt on the partnership.

1 Q. Uh-huh. I mean to include both.

2 A. Okay. I cannot remember if the 80 million  
3 would include both or not.

4 Q. Okay. Did you know in January of 2001 that  
5 Mr. Lay had a lot of loans that were  
6 collateralized with his Enron stock  
7 holdings?

8 A. Correct, yes.

9 Q. And these were bank loans; correct?

10 A. Correct. And then there was also a line of  
11 credit at PaineWebber.

12 Q. All right. And the moneys that Mr. Lay was  
13 receiving from these bank loans and his  
14 line of credit at PaineWebber, was he using  
15 those moneys for investment purposes, or  
16 for expenses, or both?

17 A. Well, money is fungible, so if you traced  
18 it, it could be probably both for, you  
19 know, whatever outflows of cash you have.

20 Q. Okay. Did you -- let me ask you this  
21 question. Did you ever develop an  
22 understanding that Mr. Lay had an  
23 investment strategy which included as a  
24 component essentially seeking to diversify  
25 his holdings by borrowing -- rather than

1           selling his Enron stockholdings and  
2           investing in other things, borrowing money  
3           using his Enron stockholdings as  
4           collateral, and then taking that money and  
5           investing it in other things? Did you  
6           understand that to be a component of his  
7           overall strategy?

8       A.    I don't know if it was a strategy, but  
9           that's what appears to have happened.

10       Q.   Okay. And it wasn't part of your job to  
11           participate in those kinds of discussions  
12           with Mr. Lay; is that correct?

13       A.    No.

14       Q.    All right. Now, would it be fair to say  
15           that during the early part of 2001, Enron's  
16           share price began to decline from its high  
17           point?

18       A.    Correct.

19       Q.    Did you understand that to have any  
20           relationship to Mr. Lay's debt structure?

21       A.    Well, it affected me in that one of the  
22           parts of my job was to, you know, look to  
23           see how the collateral was doing or the  
24           value of the collateral was doing to the  
25           outstanding balance of the line of credit.

1 Q. And why was it your job to do that? Why  
2 was that important?

3 A. As the amount -- as the market went down or  
4 as Enron price went down, then there could  
5 be -- there could be margin calls if the  
6 collateral wasn't in compliance with the  
7 lines of credit.

8 Q. All right. And can you explain to the  
9 Grand Jury what a margin call is?

10 A. Behind every line of credit there were  
11 certain shares. It could be Enron, it  
12 could be any liquid asset that was held as  
13 collateral, and depending on the  
14 institution or whatever, they would give  
15 you -- it would be something called a loan-  
16 to-value ratio.

17 Let's say if it's a 70 percent loan-to-  
18 value ratio, they give you -- I'm just  
19 going to use a hypothetical situation. If  
20 you had \$10,000 worth of collateral, then  
21 you got like 70 percent or 7,000 worth of  
22 credit.

23 So if you had borrowed \$7,000, you  
24 still were okay. But if you had borrowed  
25 like 8,000 and the collateral is now worth

1           \$7,000, the bank would issue or you would  
2           get a call that you had a margin call or a  
3           house call.

4                     And there were two ways to make it up.  
5           You either would pay down with money or you  
6           would add more collateral.

7       Q.    Okay.  So there is a relationship between  
8           the amount of outstanding debt or the  
9           amount of outstanding loan collateral, and  
10          when the gap gets too large, you get one of  
11          these calls?

12   A.    Correct.

13   Q.    And then you --

14   A.    Or when it goes over that -- I mean, as  
15          soon as it would get to over 70 percent,  
16          you would get a call; right?

17   Q.    Okay.  And then you have two ways to deal  
18          with that.  One is to bring the collateral  
19          up; the other is to pay back some of the  
20          loan, bring the outstanding debt down?

21   A.    Correct.

22   Q.    Okay.  Did there come a time in 2001 when  
23          these house calls or margin calls became a  
24          more prominent issue than they had been in  
25          the past?

1 A. Yes.

2 Q. Around when was that?

3 A. From what I remember, I want to say end of  
4 April.

5 Q. Okay. And what involvement did you have in  
6 that process?

7 A. I guess I kind of want to give some  
8 background.

9 Q. Sure.

10 A. Mr. Lay had asked me to start, you know,  
11 monitoring this in early 2001. And I would  
12 prepare a spreadsheet that would just show  
13 what the amount of debt was, the  
14 approximate, you know, value of the  
15 collateral, and, you know, if there was any  
16 amount left available or if there was a  
17 house call or margin call. So it was a  
18 summary like a snapshot of where we were at  
19 a certain time.

20 Q. And how often would you prepare that?

21 A. I tried to prepare it once a week.

22 Q. And you'd provide it to Mr. Lay?

23 A. Correct. And I -- to the best of my  
24 knowledge, I remember starting it, you  
25 know, early 2001 February-ish.

1 Q. And then you recall that it was around  
2 April when there started to be substantial  
3 issues about meeting potential margin  
4 calls?

5 A. Well, it was starting. It was starting.

6 Q. Okay. And did it get worse in those  
7 ensuing months?

8 A. Yeah. And then I also -- and I don't  
9 remember when I started this or if I was  
10 consistent. I would give a copy to Beau  
11 Herrold as well.

12 Q. All right. Now, was there, to your  
13 knowledge, a relationship between these  
14 Enron line of credit transactions on Grand  
15 Jury Exhibit KL-21 and this issue of the  
16 margin calls on Mr. Lay's other loans?

17 A. There was. I'd have to go back and review  
18 and, you know, actually look at what I  
19 prepared and see what matched to this.

20 Q. Yeah. My question is not intended to ask  
21 you to link any particular transaction here  
22 to any particular margin call or anything  
23 of that sort.

24 I'm just asking you generally whether  
25 the increased frequency of these line of

1 credit transactions in 2001 had to do with  
2 this issue of margin calls on the other  
3 debt?

4 A. Yes, they did.

5 Q. Okay. And how so? What was the  
6 relationship there and how did you learn  
7 that?

8 A. Well, just by, you know, providing the  
9 spreadsheet, when you look at all your  
10 lines and you have this is the amount  
11 that's drawn down, this is what you can and  
12 you either have a negative or a positive,  
13 you just look to see where you would have  
14 money, if that was available, you know,  
15 that was just another option.

16 Q. Okay. To your knowledge who made the  
17 determination to make more frequent use of  
18 the Enron line of credit for purposes of  
19 dealing with the house calls or margin  
20 calls or preventing house calls or margin  
21 calls on the other debt?

22 A. Well, Mr. Lay would make those decisions.

23 Q. Did you ever have a discussion with him  
24 about that as a general matter, as an  
25 approach?



1 A. No. No.

2 Q. Did he ever say anything like, you know,  
3 "Sherrie, we're going to start to use the  
4 line of credit more to deal with this," or,  
5 "I want to, you know, let me know any time  
6 there's going to be a potential house call  
7 and we'll do one of these line of credit  
8 transactions to prevent it," anything like  
9 that?

10 A. No.

11 Q. All right. Did you ever have any  
12 conversations like that with Mr. Herrold  
13 about general approach to using the line of  
14 credit to deal with the margin calls?

15 A. No.

16 Q. But you did have an understanding that that  
17 was the impetus for the increased frequency  
18 of this?

19 A. Well, it's my understanding that that was,  
20 you know, a source of cash and that was  
21 what was used.

22 Q. Okay. You do know that the moneys that  
23 were drawn down on this line of credit  
24 during 2001 were used to deal with  
25 maintenance of other debt?

1 A. Paying down other lines; correct.

2 Q. Okay. Now, prior to 2001, had you had any  
3 conversation with Mr. Lay or anybody at  
4 Enron, Mr. Herrold, anyone else about  
5 whether there were any rules about how  
6 frequently Mr. Lay could use the line of  
7 credit and repay it with shares?

8 A. No.

9 Q. Did that issue ever come up?

10 A. No.

11 Q. Did you see anything in those documents  
12 that you saw in early '99 that dealt with  
13 that issue at all?

14 A. I don't remember.

15 Q. Did you have any conversations with Mr. Lay  
16 or Mr. Herrold or anyone else that would  
17 have helped you understand how it was that  
18 Mr. Lay came to have such a large amount of  
19 debt in early 2001?

20 A. I mean, I was preparing the financials, so  
21 I could -- I just -- could you repeat the  
22 question?

23 Q. You had a -- okay. Let me see if I can  
24 break it down a little bit. You did  
25 prepare the financial statements?

1 A. Correct.

2 Q. So you had a complete picture of Mr. Lay's  
3 financial status at any given time?

4 A. Yes, but I was so engrossed in the detail  
5 and providing to make sure that whoever  
6 reviewed it, that I didn't always stand  
7 back and look at the whole picture.

8 So I get sometimes so caught up in the  
9 detail and there were others to look at the  
10 whole picture, so I don't feel  
11 comfortable...

12 Q. It wasn't part of your job to evaluate the  
13 wisdom of any strategy that Mr. Lay was  
14 employing with his money?

15 A. My primary -- I felt like my primary job  
16 was to make sure that they had accurate  
17 information on which others could then make  
18 decisions.

19 Q. All right. Understanding that, did you  
20 have any conversation with Mr. Lay or  
21 anyone else at any time about why Mr. Lay  
22 was carrying such a large amount of debt?

23 A. No.

24 Q. All right. Did you have any understanding,  
25 understanding you generally didn't make it

1 a practice to sort of step back and think  
2 about the big picture, did you nonetheless  
3 have any understanding from reviewing the  
4 financials every month as to how it was  
5 that this came about that Mr. Lay in early  
6 2001 had such a large amount of debt?

7 A. From making investments, diversifying his  
8 portfolio and --

9 Q. And borrowing in order to do that?

10 A. To do that; correct.

11 Q. And using in many case Enron -- his Enron  
12 stockholdings as collateral for those  
13 loans?

14 A. Correct, because if you look at his  
15 financials, Enron stock made up at least 80  
16 percent or more the value of his whole  
17 holdings -- I mean, of his asset base.

18 Q. And did it appear to you over the course of  
19 this period of years, that as a general  
20 matter in making choices about investments,  
21 that Mr. Lay appeared to prefer to borrow  
22 against his Enron stockholdings rather than  
23 liquidate them?

24 A. Could you repeat the question?

25 Q. Did it appear to you from looking at Mr.

1           Lay's financial picture over this period of  
2           years that -- understanding you didn't talk  
3           to him about this, but did it appear to you  
4           that he preferred to borrow against his  
5           Enron stockholdings rather than to  
6           liquidate them?

7       A.    Correct.

8       Q.    Did there come a time in 2001 when the line  
9           of credit was increased from four million  
10          to seven-and-a-half million?

11      A.    Yes.

12      Q.    When did that happen?

13      A.    I don't remember the exact date.

14      Q.    Do you remember approximately when in the  
15          year it was?

16      A.    It was the latter part of 2001.

17      Q.    Okay. Let me ask you this. Was it before  
18          or after this period on Grand Jury Exhibit  
19          KL-21 in June when there is a large number  
20          of transactions?

21      A.    No. It --

22      Q.    Was it after that?

23      A.    To the best of my knowledge, it was in  
24          October. I just don't remember when in  
25          October.

1 Q. Did you ever see any documents reflecting  
2 the authorization for that or the rules  
3 about it?

4 A. To to be quite honest, I thought I did and  
5 then when I tried to find it to give it  
6 during our meeting, I couldn't locate it,  
7 so I don't know if it was just...

8 Q. When you say "it," are you referring to --

9 A. To a document.

10 Q. From the board of directors reflecting --

11 A. Or some type of documentation authorizing  
12 this increase?

13 Q. Enron documentation?

14 A. Correct. I'm sorry.

15 Q. All right. Do you know why that was either  
16 sought or approved at that time?

17 A. No.

18 Q. Did you ever discuss that with Mr. Lay?

19 A. No.

20 Q. Did you ever discuss it with Mr. Herrold?

21 A. No.

22 Q. Okay. Directing your attention again to  
23 KL-21 and the period during June, July and  
24 August when there's a large number of these  
25 transactions, did you have any discussion

1 with anybody during 2001 about the -- any  
2 limits that did or didn't exist on the  
3 frequency with which Mr. Lay could do this?

4 A. Yes.

5 Q. Who did you talk to about that?

6 A. I talked to Bob Butts in accounting. He  
7 was a controller for Enron. My job was to  
8 -- well, to make sure that Enron received  
9 the shares when they were used to pay back  
10 the line of credit.

11 And from my previous questioning, I  
12 guess, by Mr. Kimball and others, they  
13 focused on June. So I'd try to go back and  
14 remember, you know, why I called him during  
15 that period of time.

16 And from what I discussed before, you  
17 had five business days to deliver the stock  
18 to Enron for repayment. Before there was,  
19 you know, there was always long periods of  
20 time or the five days wasn't an issue, but  
21 in June, there was a payback and an advance  
22 and, again, the stock was held at all these  
23 different places and one of my jobs was to  
24 select the stock.

25 Well, if the stock that had the highest

1           cost basis was held as collateral, you know  
2           at a bank who kept it out of state, that  
3           would affect my delivery time. So whenever  
4           there was a payback on June 12, it -- I  
5           went back and I looked at this. I reviewed  
6           this -- the stock was at PaineWebber, so it  
7           was easy -- it was not a stressful -- it  
8           was easier to get the stock on a timely  
9           manner to Enron, and I did it prior to the  
10          July -- I mean, to the June 15th and, you  
11          know, I didn't know June 15th was going to  
12          happen until it had happened or the  
13          advance was requested.

14                 So just -- I just wanted to make sure  
15          that I was doing my job and I was in  
16          compliance. I called -- I called Bob  
17          Butts, the controller, and I asked him, I  
18          said, you know, "When we do a payback, we  
19          give you notification, and then there's  
20          five business days to deliver the stock,  
21          but what would happen if we notified you  
22          and then there was another advance? You  
23          know, I know that we notify you we're  
24          paying back. Is there something I should  
25          be aware of?" I just --



1 Q. In other words, what happens if you notify  
2 of a payback and --

3 A. And the interest stops then.

4 Q. And then before that five days runs for the  
5 delivery of the shares, he's already taken  
6 another advance?

7 A. Correct.

8 Q. Or can he do that or would that be  
9 considered drawing it down beyond the  
10 limit?

11 A. Correct. I wasn't real clear on that  
12 because the document weren't of assistance.  
13 So being -- you know, so then I asked him  
14 four days and I asked him three days and I  
15 asked him two and I said I just wanted to  
16 know every situation.

17 I said, what if, you know, we did  
18 advancement, payback, you know,  
19 advancement, would that affect -- would we  
20 be -- you summarized it very well. Would  
21 we be over the limit? I mean, we have  
22 notified where we're paying back, but you  
23 don't actually have the shares in hand.

24 Q. All right. What was Mr. Butts' response  
25 to your inquiries?

1 A. He said yes, that may be done.

2 Q. Did he explain how he had determined that  
3 that was appropriate?

4 A. No.

5 Q. Did he answer that question on the spot or  
6 did he say he had to consult with someone  
7 or look at something first?

8 A. He answered me on the spot, from what I can  
9 remember.

10 Q. Okay. Other than -- anything else you  
11 remember about your conversation with Mr.  
12 Butts?

13 A. No.

14 Q. All right. Other than the conversation  
15 with Mr. Butts, did you have any  
16 conversation with anybody at any time  
17 during 2001 about any issues relating to  
18 the frequency of Mr. Lay doing this, any  
19 limits on it, any reporting implications of  
20 it, SEC rules, anything of that nature?

21 A. No.

22 Q. Do you recall receiving some instruction at  
23 some point in 2001 were either Mr. Lay  
24 or Mr. Herrold to speak to Mr. Rodgers  
25 about Mr. Lay transacting in Enron stock?

1 A. I know I did, but I don't remember when.  
2 Regarding that particular transaction when  
3 I called Mr. Butts, I just -- I also asked  
4 Mr. Herrold to call Mr. Rodgers because,  
5 you know, I was looking at the accounting  
6 and I just wanted to make sure it wasn't a  
7 legal issue. I was just trying to cover  
8 all bases.

9 Q. Did you given Mr. Herrold any specific  
10 issue that you thought he ought to talk to  
11 Mr. Rogers about or did you just say  
12 generally just see if there were any legal  
13 issues?

14 A. Well, I just -- any legal issues on  
15 delivery.

16 Q. What do you mean "on delivery"?

17 A. Well, delivery of the shares. The same  
18 issue that I was having with Mr. Butts.

19 Q. In other words, the lag between --

20 A. If you would be over --

21 Q. -- the notification of repayment and the  
22 actual delivery of the shares?

23 A. Correct. Correct.

24 Q. Whether that created any legal issue?

25 A. Correct.

1 Q. So just specifically that question?

2 A. Correct.

3 Q. Anything else you asked Mr. Herrold to talk  
4 to Mr. Rodgers about?

5 A. Not that I remember.

6 Q. Did Mr. Lay or Mr. Herrold ask you to speak  
7 to Mr. Rodgers about anything having to do  
8 with Mr. Lay's transacting in Enron stock  
9 during 2001, in these transactions or  
10 otherwise?

11 A. I might have.

12 Q. Why do you say you might have?

13 A. Occasionally, you know -- but I don't know  
14 if it was in 2001. I remember one or two  
15 instances where Mr. Lay asked me to call  
16 Mr. Rodgers to verify that stock, Enron  
17 stock, could be sold back to Enron.

18 Q. Are those the same conversations you  
19 referenced earlier in your testimony about  
20 the window being open?

21 A. No. The one in December of '98 and  
22 December of 2000, that was having to do  
23 with kind of the partnership window. I  
24 just know that I did talk to Mr. Rodgers,  
25 but I don't remember which year. It's a --

1           you know, somewhere between '98 and 2001.

2       Q.    Do you recall ever speaking to Mr. Rodgers  
3            about the subject of Mr. Lay selling or  
4            transacting Enron stock back to the  
5            company?

6       A.    I have, but I don't remember when. I might  
7            have remembered it when I talked to Mr.  
8            Kimball, but I don't remember now.

9       Q.    Do you recall anything about the substance  
10            or content of that conversation?

11      A.    Well, I remember that he told me -- I don't  
12            remember if he told me or when Beau got  
13            back -- well, Mr. Herrold got back when he  
14            talked to Mr. Rodgers, that we did not need  
15            to get back with again because this was an  
16            exempt transaction.

17      Q.    "This" being what?

18      A.    Selling Enron stock back to Enron  
19            Corporation, back to the company.

20      BY SPECIAL AUSA KIMBALL:

21      Q.    When you say "exempt," exempt from what?

22      A.    That was a legal -- it was a term he used.

23      Q.    It was a term that --

24      A.    Well, I guess -- well --

25      Q.    Who used that term, Mr. Rodgers or Mr.

1 Herrold?

2 A. It would have been Mr. Rodgers.

3 BY SPECIAL AUSA BUELL:

4 Q. And what did you -- what do you understand  
5 that to mean? In other words --

6 A. And I don't know who -- and that's why I'm  
7 trying to be as exact as possible. My  
8 understanding is that exempt meant that  
9 it's not an over the -- it's not a market  
10 -- over-the-market transaction.

11 Q. Meaning what?

12 A. That you're not selling on the market.

13 Q. Therefore?

14 A. That it doesn't apply to the window.

15 Q. Okay. Drawing your attention to that  
16 Exhibit KL-21 again, the records reflect  
17 that there was a, you know, as we have  
18 pointed out, some significant frequency of  
19 the these transactions during the summer  
20 and then the records would appear to  
21 reflect, do they not, that there were no  
22 such transactions between early September  
23 and late October?

24 A. Correct.

25 Q. Do you have any knowledge as to why the

1 frequency of the transactions slowed  
2 between early September and late October?

3 A. I remember that there was an inflow of cash  
4 in the -- in September that could have had  
5 a bearing on this.

6 Q. Tell us about that.

7 A. Mr. Lay sold his Manulife annuities to  
8 Enron Corporation for \$10 million. There  
9 were two annuities at \$5 million each.

10 Q. Was that a transaction that was provided  
11 for because of something related to his  
12 compensation that had changed because he  
13 had resumed the position of CEO?

14 A. That's what I was told.

15 Q. And so there was a 10 million influx --

16 A. Dollar influx of cash.

17 Q. In September?

18 A. Correct.

19 Q. And to your knowledge, was some or all of  
20 those funds used to service other debt?

21 A. To the best of my knowledge, yes.

22 Q. Did you have any discussions with Mr. Lay  
23 or Mr. Herrold or anyone else about not  
24 needing to do these transactions for a  
25 period of time because of that influx of

1 cash?

2 A. No.

3 Q. All right. You're just concluding that  
4 because you know of that event?

5 A. Well, I'm concluding that because I was  
6 looking at because we had cash.

7 Q. Okay.

8 A. I mean, I --

9 Q. From your own review of the financial  
10 records, that's just an observation that  
11 you would make?

12 A. Correct.

13 Q. That there was other money available --

14 A. Correct.

15 Q. -- during that time?

16 A. Yeah.

17 Q. Okay. Now, do you notice on these records  
18 that the last payback of the line of credit  
19 occurs on October 26th?

20 A. Correct.

21 Q. There are some additional advances after  
22 that but no further paybacks in 2001?

23 A. Correct.

24 Q. Do you know why there were no further  
25 paybacks with stock after the 26th of



1           October?

2       A.    No.

3       Q.    Did you ever discuss that with anyone?

4       A.    No.

5       Q.    Is there any conclusion that you can draw  
6           from your own knowledge and review of  
7           financial records as to why the paybacks  
8           with stock would have stopped on the 26th  
9           of October?

10      A.    No.

11      Q.    Did you have any occasion -- have you had  
12           up until today any occasion after the 26th  
13           of October of 2001 to discuss with Mr. Lay  
14           the subject of his use of Enron's line of  
15           credit?

16      A.    No.

17      Q.    Or his paypack of the line of credit with  
18           Enron shares?

19      A.    No.

20      Q.    Ms. Gibson, did you have occasion in the  
21           course of your ordinary duties to discuss  
22           at any time Enron's business with Mr. Lay?

23      A.    No.

24      Q.    Did he make it a practice not to discuss  
25           those matters with you or was it just not

1 something you would have needed to talk to  
2 him about?

3 A. Whenever we discussed, it was just very  
4 direct and it had a purpose, a personal  
5 purpose, maybe a question on the  
6 financials, but no, we did not discuss the  
7 company.

8 Q. Mr. Lay wouldn't share with you  
9 observations about the company's prospects  
10 or it's averages or it's stock price or  
11 anything of that nature?

12 A. No. No.

13 Q. You didn't have occasion, for example, to  
14 discuss with Mr. Lay at or around the time  
15 it occurred Mr. Skilling's resignation?

16 A. No.

17 Q. Did you have occasion to discuss with Mr.  
18 Lay at any time what have come to be known  
19 as the Sharon Watkins' allegations; is that  
20 something that he shared with you?

21 A. No.

22 Q. Did you know -- and I'm just using these as  
23 examples, but did you know prior to its  
24 release that Enron was preparing to  
25 announce bad financial results for the

1           third quarter of 2001?

2       A.   No.  I was still buying stock.

3       Q.   Okay.  So it would be fair to say as a  
4           general matter that you just didn't discuss  
5           Enron business with Mr. Lay?

6       A.   No.  That's correct to say.

7       Q.   Did there come a time in December of 2001  
8           when the Lays paid off the mortgage on  
9           their home in Houston?

10      A.   Yes.

11      Q.   And why was that done, to your knowledge?

12      A.   To my knowledge, it was done on the --  
13           based on an attorney's advice to them.

14      Q.   And who told you about that?

15      A.   I don't remember.  I just know it.

16      Q.   Directing your attention to early 2001, and  
17           again I'm not trying to hold you here to  
18           exact details.  I just want a general  
19           sense.  What real estate holdings did the  
20           Lays have?

21      A.   Well, they had some properties in  
22           Galveston, some in Aspen, and then some  
23           rental properties in Houston.

24      Q.   Commercial or residential rental  
25           properties?

1 A. Residential.

2 Q. How many properties in Aspen?

3 A. I don't remember exactly in the beginning  
4 of 2001; three or four.

5 Q. And in Galveston?

6 A. There were -- again I don't remember  
7 exactly the beginning of -- there were two  
8 lots, three homes, but I don't know when  
9 that last home was purchased. I don't  
10 remember.

11 Q. And how many rental properties in Houston?

12 A. Five or six, to the best of my knowledge.

13 Q. Okay. I want to show you a document marked  
14 Grand Jury Exhibit KL-22.

15 [Grand Jury Exhibit No. KL-22  
16 marked for identification and  
17 made a part of the record.]

18 BY SPECIAL AUSA BUELL:

19 Q. You don't need to read through that in  
20 detail but if you could just leaf through  
21 it and let me know if you recognize that.  
22 That's actually a set of documents.  
23 There's a memo and then there's some other  
24 documents attached.

25 A. Oh, okay. [Reviews documents.]

1 Q. Do you recognize those?

2 A. Yes.

3 Q. Okay. did you become aware at some point  
4 in 2000, late 2000, that Mr. Lay had  
5 adopted a stock sales plan with the  
6 company?

7 A. Yes.

8 Q. And how did you learn, first learn about  
9 that?

10 A. I don't remember exactly.

11 Q. Did you have any role in the process of  
12 putting that plan together or implementing  
13 it?

14 A. No. I just --

15 Q. Did it affect any part of your job, the  
16 trading plan?

17 A. No. No. The only thing it affected was my  
18 reporting. I mean, how -- just because of  
19 the volume -- well, just because of the  
20 transactions.

21 Q. Do you know why -- and by the way, there  
22 was a trading plan both for Mr. Lay and  
23 also for the family partnership; is that  
24 correct?

25 A. Investment partnership.

1 Q. The investment partnership. I'm sorry.

2 A. That's okay.

3 Q. And do you know why those plans were  
4 adopted?

5 A. For some -- I know that the SEC had changed  
6 the rules and allowed this. It was a  
7 change in SEC rules that allowed companies  
8 to adopt these types of plans.

9 Q. "These types of plans" being plans where  
10 you would essentially commit in advance to  
11 sell a certain number of shares  
12 periodically?

13 A. Yeah. They're called scheduled sales  
14 plans, and from my understanding, once you  
15 got a scheduled sales plan, you couldn't  
16 alter it.

17 Like for instance, you could decide to  
18 sell so many shares every day, so many  
19 shares once a week, so many shares, you  
20 know, on a -- just whatever you would  
21 specify in your plan, and that regardless  
22 of what the stock was doing, it just would  
23 be done.

24 Q. Okay. Do you know of any other reason why  
25 Mr. Lay adopted these plans at the time he

1           adopted them?

2       A.    I'm trying to be, you know, very exact in  
3           my answers and I don't know where I -- I  
4           remember the source, but as part of this  
5           sales plan, because it has to be approved  
6           by the SEC up front, this sales plan can go  
7           through even though a window is closed.

8                        So even though, you know, let's say, in  
9           an isolated case, you would not be able to  
10          sell, because you had already this in  
11          place, it still was acceptable or in  
12          compliance.

13       Q.   Okay. But you don't know who you got that  
14           from?

15       A.   No.

16       Q.   Okay. Did you become aware that Mr. Lay  
17           terminated these sales plans in or about  
18           July of 2001?

19       A.   Yes.

20       Q.   What do you know about why that was done?

21       A.   Mr. Herrold mentioned to me that they -- or  
22           Mr. Lay thought the price was too low and  
23           that -- that he terminated the plan. The  
24           price of Enron stock was too low.

25       BY SPECIAL AUSA KIMBALL:

1 Q. If I can just briefly go back to Exhibit  
2 21, which is the schedule.

3 SPECIAL AUSA BUELL: Let me give  
4 it back to her.

5 BY SPECIAL AUSA KIMBALL:

6 Q. I just want to make sure that I understand  
7 kind of the grand totals here. And Ms.  
8 Gibson, I'm sorry if you got asked this  
9 question before, but is this a document  
10 that you prepared?

11 A. No.

12 Q. Do you know who prepared it?

13 A. Yes. Joanna Cortez in accounting prepared  
14 it.

15 Q. Joanna Cortez in accounting at Enron?

16 A. Correct. She was my last contact person at  
17 Enron. Whenever we would notify that there  
18 was going to be a payback, she would  
19 calculate the interest due.

20 Q. Did she prepare it because you asked her to  
21 prepare it?

22 A. No.

23 Q. Do you know who did?

24 A. Well, she told me she prepared it because  
25 she wanted to doublecheck herself on



1 interest.

2 Q. Okay. And just so I understand, the grand  
3 totals there under "Daily Activity,"  
4 there's "Advances" and a "Paybacks" total.  
5 The figure at the very bottom, bottom  
6 \$77,500,025?

7 A. It's five hundred twenty-five thousand.

8 Q. \$525,000?

9 A. Yes.

10 Q. Approximately \$77 million.

11 A. Right.

12 Q. That represents the amount of money that  
13 Mr. Lay borrowed from Enron on his  
14 revolving line of credit in 2001?

15 A. Correct.

16 Q. And the \$70 million figure, approximately  
17 \$70 million figure in the next column, that  
18 represents, I guess, the fact that Mr. Lay  
19 repaid that debt with approximately \$70  
20 million worth of his stock?

21 A. Correct.

22 Q. Is that correct?

23 A. Correct.

24 SPECIAL AUSA KIMBALL: Okay.

25 That's all.

1 SPECIAL AUSA BUELL: Okay. We're  
2 going to ask you to step in the  
3 hall if you could for a minute,  
4 Ms. Gibson. We'll see if we have  
5 any other questions?

6 [Witness out, 12:07 p.m.]

7 [WHEREUPON, at 12:10 p.m., the  
8 investigation in the above-  
9 entitled matter was recessed.]

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6 I, TIERNEY LEDBETTER, CSR, a Certified  
7 Court Reporter and Notary Public in and for the  
8 State of Texas, having been duly sworn in as the  
9 Grand Jury Reporter, hereby certify that the  
10 foregoing pages constitute a true and correct  
11 transcript of the proceedings had and testimony  
12 adduced in said cause at the time and place as  
13 hitherto set forth; that the interrogatories and  
14 answers by the witness were taken down by me in  
15 shorthand and thereafter reduced to typewriting.

16 AS WITNESS MY HAND AND SEAL OF OFFICE this  
17 \_\_\_\_\_ day of \_\_\_\_\_, 2002.

18  
19  
20 \_\_\_\_\_  
21 Tierney Ledbetter, Certified Court  
22 Reporter and Notary Public in and  
23 for the State of Texas.  
24  
25